RECORD AND BRIEFS

Supreme Court, U.S.
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No. 16-1011

In the Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITIONER'S REPLY BRIEF

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REPLY BRIEF

The Federal Circuit crafted a patent-specific rule with no basis in statutory text that both (1) undoes Congress's deliberate work responding to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), and (2) double-counts the presumption against extraterritoriality in conflict with the regional circuits' approach to the same issue in copyright law. The result drastically weakens the rights of every patentee who would rely on § 271(f) to enforce its patents.

ION's opposition only strengthens the case for this Court's review. ION repeatedly emphasizes, for example, that its infringing conduct occurred *in the United States*. Nonetheless, ION insists that the presumption against extraterritoriality immunizes it from the entirely foreseeable extraterritorial consequences of its concededly territorial infringement. Every regional circuit to decide the question has reached the opposite conclusion in the copyright context and recognized that the presumption against extraterritoriality does not limit foreseeable damages from *domestic infringement*. The split between that approach and the Federal Circuit decision below is stark. Worse, both the Federal Circuit and the regional circuits contend that their diametrically opposed rules are consistent with *Goulds Manufacturing Co. v. Cowing*, 105 U.S. 253 (1881) and *Dowagiac Manufacturing Co. v. Minn. Moline Plow Co.*, 235 U.S. 641 (1915)—which both concern *patent damages*.

Most of ION's opposition strains to avoid the question squarely presented here. Indeed, ION's principal argument—questioning the propriety of the petition—fundamentally misunderstands both this

Court's earlier GVR and the Court's certiorari jurisdiction. And the remainder of ION's opposition refers to arguments it made below but the court did not reach, preferring instead to rest on its misguided limitation on foreign lost profits from domestic infringement. At bottom, ION's opposition merely underscores the need for this Court's review.

I. The Petition is Proper.

ION's main argument misunderstands this Court's certiorari jurisdiction and the nature of this Court's earlier GVR. BIO § I. It is well established that this Court "can reach back and correct errors in the interlocutory proceedings below, *even though no attempt was made at the time* to secure review of the interlocutory decree *or even though such an attempt was made without success.*" Stern & Gressman, *Supreme Court Practice* 75 (8th ed. 2002); *see also Major League Baseball Players Ass'n v. Garvey*, 532 U.S. 504, 508 n.1 (2001) (The Court "ha[s] authority to consider questions determined in earlier stages of the litigation where certiorari is sought from the most recent of the judgments of the Court of Appeals."); *see also Mercer v. Theriot*, 377 U.S. 152, 153 (1964) ("[I]t is settled that we may consider questions raised on the first appeal, as well as those that were before the court of appeals upon the second appeal.") (internal quotation marks omitted). Thus, under any circumstances, there would be no obstacle to this Court addressing the question presented.

But here, the Court's ability to reach the question presented is particularly clear. As ION itself emphasizes, BIO 12, this Court's previous GVR order explicitly *granted* the whole petition (raising both questions) and *vacated* the whole Federal Circuit deci-

sion. 136 S. Ct. 2486 ("Petition for writ of certiorari granted. Judgment vacated..."). That only strengthens the case for review by emphasizing that Petitioner's prior petition was granted in whole and the prior Federal Circuit decision, including its misguided damages ruling, was vacated *in toto*. Accordingly, the Federal Circuit needed to issue a new opinion, and there is absolutely no obstacle to WesternGeco raising any certworthy issue addressed in the new Federal Circuit decision that explicitly replaced the decision vacated by the GVR order. App.2a-3a ("reinstat[ing] earlier opinion and judgment"); App.4a-5a & n.1. Both under this Court's longstanding precedent, and the explicit terms of the GVR order, the Question Presented is properly raised here, and the Court should review it now.

II. ION's Arguments Underscore the Conflict With Statutory Text, *General Motors*, *Goulds*, *Dowagiac*, and Copyright Law.

A. The Conflict With this Court's Precedent and the Patent Act Warrants Review.

1. ION repeatedly emphasizes that its infringement took place in the United States. *See, e.g.*, BIO ii ("infringement is complete upon export"), iii ("infringement in the United States"), 4 (twice referring to "United States infringement"), 5 (infringement under § 271(f) "is limited to export" and does not "go beyond acts in the United States"), 9 ("ION's sale of components in the United States"), 16 ("complete upon export"). ION is absolutely correct, but this repeated emphasis is puzzling since it only strengthens the case for review here and underscores the Federal Circuit's mistake in relying on the presumption

against extraterritoriality. Congress enacted section 271(f) to prohibit certain actions in the United States associated with further extraterritorial actions that undermine patent rights, knowing full well that the consummating steps—and thus often the resulting damages—would occur abroad. Pet. 7, 18-19. There is no reason to think that Congress wanted to *disfavor* damages for patentees who rely on § 271(f) just because the damages were (all but inevitably) incurred extraterritorially. To the contrary, the whole point of the statute is to identify certain acts with a sufficient territorial nexus to justify their prohibition notwithstanding that the final steps take place abroad. To use the presumption against extraterritoriality to limit the damages from those concededly territorial acts of infringement is at best double counting and at worst directly contrary to Congress' judgment in § 271(f).

ION argues that the Federal Circuit places damages for infringement under § 271(f) on equal footing with damages for other acts of infringement. BIO 17-21. As Judge Wallach's dissents and the petition explain, that rationale misses the mark. App.17a-22a; App.66a; Pet. 15-22. Under this Court's longstanding precedent, so-called "foreign lost profits" *are* recoverable for other types of infringement. An infringer who makes infringing widgets in the United States (violating § 271(a)) and sells them in Canada can be made to pay lost profits if the patentee shows that the infringement caused lost profits. *Goulds*, 105 U.S. at 256-57; Pet. 22-23.

2. ION relies heavily on *Power Integrations, Inc. v. Fairchild Semiconductor, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013). BIO 17-19, 21-22. *Power Integrations*, of

course, does not bind this Court, but neither does it support ION. In *Power Integrations*, the patentee's damages theory included electronic chips that were made and sold abroad and never entered the United States. *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F. Supp. 2d 505, 510-11 (D. Del. 2008); *Power Integrations*, 711 F.3d at 1372. As Judge Wallach explained in this case—and as Judge Reyna, the author of *Power Integrations* agreed—*Power Integrations* does not double-count the presumption against extraterritoriality to limit liability and damages. Rather, *Power Integrations* addressed "the *sufficiency of the connection* between the foreign activity and the domestic infringement," and "merely applie[d]" principles of proximate causation and foreseeability to the damages award in that case. App.66a; *see also* App.178a (Reyna, J., joining dissent).

Here, there is no dispute that ION violated § 271(f) by its conduct *in the United States*. Again, ION emphasizes that point repeatedly. BIO ii, iii, 4, 5, 9, 16. Nor is there any dispute that the jury's damages award covered harm that flowed directly and foreseeably from that intentional conduct. Pet. 9-10; App.175a (jury form, assessing damages "WesternGeco has proven by a preponderance of the evidence that it suffered as a result of ION's infringement."); Jury Instructions, S.D. Tex Case No. 4:09-CV-01827, ECF#530, at 25-26 (lost profits instructions).

3. ION invokes *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), and argues that the petition attacks *Microsoft* and the presumption against extraterritoriality itself. BIO i, 15. Not so. *Microsoft* ap-

plied the presumption against extraterritoriality to determine what actions are subject to *liability* under § 271(f). *Microsoft* held, based in part on the presumption against extraterritoriality, that "foreign-made copies of Windows actually installed on the computers were supplied from places outside the United States," and thus could not be components "supplied *from* the United States" under § 271(f). 550 U.S. at 452. The issue was thus whether *acts* that occurred outside the United States constituted *infringement* under § 271(f). No similar issue exists here because—again, as ION helpfully and repeatedly emphasizes—ION's infringement liability is based on acts ION took in the United States. WesternGeco proved to the jury's satisfaction that those acts directly and foreseeably caused it precisely the sort of damages Congress must have contemplated when it enacted § 271(f).

Equally unavailing is ION's reliance on *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, 576 F.3d 1348 (Fed. Cir. 2009). BIO 15-16. That case—even as ION describes it—addressed liability, not damages. *Id.* ION also cites *Life Technologies Corp. v. Promega Corp.*, 137 S. Ct. 734 (2017), but that case only underscores the error below. As with *Microsoft* and *Cardiac Pacemakers*, *Life Technologies* concerned *liability* under § 271(f) , and the specific question of how much domestic activity is enough to trigger liability. In answering that question, the presumption against extraterritoriality is fully applicable. But once there is enough territorial activity to trigger liability—which again in both conceded and emphasized here—then artificially limiting damages because some of the harm was manifested abroad is erroneous double counting. Moreover, the Court's

decision to grant certiorari in that case underscores the importance of § 271(f) to the patent system. *See* Pet. 29-31.

4. The issue is not whether the presumption against extraterritoriality should be overruled as ION mistakenly suggests. Rather, it is whether the presumption should be double-counted to limit *damages* under 35 U.S.C. § 284, when it is undisputed that the infringing conduct occurred in the United States, and the damages are foreseeably caused by the infringement. As the petition noted, and ION ignores, patent infringement is a tort, Pet. 19-20, and damages in any tort case are appropriately limited by principles of proximate cause and foreseeability. *See* Restatement (2d) of Torts § 912 (1979); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1393-94 (2014); App.17a-22a; App.66a.

The Federal Circuit's application of the presumption to limit the type of damages available for acts of U.S. infringement is unprecedented, and cuts off an entire category of damages without any "explicit[]" instruction from Congress. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653 (1983). That decision warrants this Court's review.

B. The Panel Decision's Conflict With Other Circuits' Predicate Act Doctrine Favors Review.

The conflict between the Federal Circuit's rule for patent law and other circuits' consistent rule for copyright is stark. The Federal Circuit and every other circuit draw diametrically opposite conclusions from this Court's decisions in *Dowagiac* and *Goulds* (both cases addressing *patent infringement damages*). Judge Hand's seminal opinion in *Sheldon v. Metro-*

Goldwyn Pictures Corp., 106 F.2d 45 (2d Cir. 1939) cited *Goulds* and *Dowagiac* for the proposition that the presumption against extraterritoriality did not bar the plaintiffs from collecting damages arising out of foreign exhibition of a film, where the film was produced using negatives copyrighted and copied in the United States. *Id.* at 52. The direct tie to *domestic* infringement meant that the court "need not decide whether the law of [foreign] countries" recognized the plaintiff's copyright. *Id.* (citing *Goulds* and *Dowagiac*). Every circuit to reach the issue agrees, and reaffirms that the presumption against extraterritoriality is not violated because the predicate act doctrine is rooted in wrongful *domestic* conduct and cabined by principles such as proximate cause, foreseeability, and statutes of limitations. *See, e.g., Tire Eng'g & Distrib., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 306-08 (4th Cir. 2012); *Palmer v. Braun*, 376 F.3d 1254, 1258 (11th Cir. 2004). *See also* 17a; 57a-58a; 60a-64a (dissenting opinions of Judge Wallach, discussing *Goulds* and *Dowagiac*); 179a-180a (dissenting opinion of three judges, addressing predicate act doctrine).

The Federal Circuit, however, draws the opposite conclusion—that it follows from the presumption against extraterritoriality that so-called "foreign lost profits" cannot lie. App.41a-48a. And remarkably, the Federal Circuit—in direct contrast to Judge Hand and the Second Circuit—reads *Goulds* and *Dowagiac* as *supporting* that rule. Appx46a-47a.

Both cannot be right, and Judge Hand is rarely wrong. Either way, this square copyright-vs-patent conflict on a general principle (the presumption against extraterritoriality) is precisely the sort of

important legal conflict that warrants this Court's review. *See, e.g., SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 137 S. Ct. 954 (2017) (reversing Federal Circuit, in case of copyright-vs-patent conflict regarding laches); *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 546 (2016) (granting certiorari to review Federal Circuit decision presenting copyright-vs-patent conflict regarding international exhaustion).

ION's only substantive response response to the predicate act doctrine (BIO § V) is to deny that any "split" exists because the Federal Circuit has "acknowledged the viability of the predicate act doctrine under copyright law." BIO 23. That is a *non sequitur* that does not deny that the Federal Circuit's patent rule conflicts with other circuits' copyright rule. And in any event, the Federal Circuit has no choice but to concede the "viability" of the other circuits' contrary copyright rule because it is obligated to address copyright issues (like other non-patent issues) according to the circuit law governing the district court from which the appeal arises. *Amini Innovation Corp. v. Anthony Cal., Inc.*, 439 F.3d 1365, 1368 (Fed. Cir. 2006). That said, the prospect that the Federal Circuit could apply diametrically opposed damages rules to domestic copyright infringement and domestic patent infringement *in the same case* certainly underscores the need for review.

ION's waiver argument (BIO 24) borders on frivolous. The conflict between Federal Circuit's rule for patents and other circuits' rule for copyrights underscores the *importance* of the question presented for Rule 10 purposes. There is no issue of "preservation" or "waiver" or any need to "make a record" of consid-

erations favoring certiorari. *Id.* And in any event, litigants waive issues, not arguments. *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 99-100 (1991). The *issue* of WesternGeco's entitlement to lost profits was squarely before the Federal Circuit—it was the basis of ION's appeal. ION ultimately has no answer for the patent-vs-copyright conflict this case creates.

III. This Case is Important and an Ideal Vehicle.

ION does not deny the importance of the question presented. Its two "vehicle" arguments are unsound. BIO §§ IV, VI.

First, ION repeats in two sections of its brief that this case is "fact-driven" because—in ION's view—ION does not compete with WesternGeco, and "[t]he factual disconnect provides an additional reason why this Court should not grant certiorari." BIO 22 (§ IV); 24-25 (§ VI, same argument). The argument is meritless in its own right, and no obstacle to review. WesternGeco is vertically integrated. Though its business is broader than ION's, WesternGeco does compete directly with ION. More importantly, the jury specifically found that ION's infringement caused WesternGeco to lose profits. App175a. No court has disturbed that finding. Direct competition is not a prerequisite to lost profits, and it is well-established that damages are based on the patentee's loss, not the infringer's gain.* *See, e.g., Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 551-52 (1886); *Coupe v. Royer*, 155 U.S. 565, 582 (1895); Pet. 17-18,

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* WesternGeco ultimately won lost profits at the district court, and could not have appealed the lost-profits jury instruction, as ION suggests. BIO 8; *see Lindheimer v. Ill. Bell Tel. Co.*, 292 U.S. 151, 176 (1934).

21. ION's desire to resurrect that argument in the event of a remand is no reason to deny review. That ION might possibly have additional arguments on remand—meritorious or otherwise—is no reason not to grant review in the first place. *Whitman v. Dep't of Transp.*, 547 U.S. 512, 515 (2006) ("The various other issues ... not decided below, may also be addressed on remand...."); *Goodyear Tire & Rubber Co. v. Haeger*, 137 S. Ct. 1178, 1190 (2017) (respondent's waiver argument can be addressed on remand).

Second, collateral administrative proceedings at the Patent Office cannot moot damages in this case. BIO 11-12, 26-27. Having tried and failed at the district court and on appeal, ION no longer disputes infringement or validity in this case. Under an unchallenged jury instruction, lost profits could be awarded so long as there was *at least one* patent claim (from the various asserted patents) found infringed and not invalid. App.175a (Verdict form: "If *any* claim is infringed and not invalid, what damages do you find WesternGeco has proven ...?") (emphasis added); *see also* Jury Instructions, S.D. Tex Case No. 4:09-CV-01827, ECF#530, at 25 ("WesternGeco must show ... that ION's alleged infringement of a valid patent claim caused WesternGeco to lose sales."). The Patent Office proceedings *only question the validity of a subset* of the claims the jury found infringed by ION and not invalid. Thus, even if ION's speculation about the ultimate outcome of those collateral proceedings comes to pass, at least two patents would still remain with valid claims infringed under § 271(f): the '520 patent (claim 23), *and* the '038 patent (claim 14). App.170a-174a (jury finding those claims valid and infringed); *see Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.*, 246

F.3d 1336, 1357 (Fed. Cir. 2001) ("Lost profit damages do not depend on the number of patents infringed by one single product ...."). ION concedes that at least claim 23 of the '520 patent was included in the lost profits analysis, BIO 12, 26, and ION never contested that a single valid and infringed claim could support a lost profit award. *Retractable Techs., Inc. v. Becton Dickinson & Co.*, 757 F.3d 1366, 1370 (Fed. Cir. 2014) (argument "that the damages award must be revisited if either one of the two products at issue are found not to infringe ... could have and should have been raised in the previous appeal."). Everyone who has challenged these two claims, whether in court or at the Patent Office, has failed, and the pending proceedings ION references do not involve these claims. Patent Office proceedings therefore cannot moot the petition.

CONCLUSION

This Court should grant the petition.

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